SaskTel

Consolidated Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2002

president's message

SecurTek Monitoring Solutions Inc. (SecurTek) is an incorporated wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (SaskTel). SecurTek grew out of SaskTel's call centre and process expertise and was formally launched as a service available to Saskatchewan customers in May 1999. SecurTek provides security and emergency alarm monitoring and notification services to serve residential and commercial customers in Saskatchewan, across Western Canada and selectively in Ontario.

SecurTek operates the only ULC approved monitoring centre in Saskatchewan. Through partnerships with local security businesses within Saskatchewan and Western Canada, SecurTek monitors accounts sold and serviced by private business. SecurTek's Yorkton based monitoring centre enables it to keep the monitoring revenues from Saskatchewan customers in Saskatchewan, as well as bringing in revenues from customers in provinces outside Saskatchewan. The direct employment in Yorkton from head office and monitoring activities is 76 jobs paying over $3,000,000 in annual salaries and wages to expand Yorkton and Saskatchewan's economy. In addition, Saskatchewan-wide employment by SecurTek's 13 Saskatchewan based small business partners has increased as a result of this successful partnership providing further economic benefits to the Province.

SecurTek allies with small business, providing services that complete the delivery of end to end monitoring services for monitoring customers. To do this, SecurTek enters into agreements with independent security alarm companies, made up of local small businesses in the territories served by SecurTek.

The independent security alarm companies provide the customer contact, sales, customer user training and installation of alarm systems for the customer. These small businesses also provide ongoing customer service to the customer for any service needs, including repairs to damaged equipment, installing additional equipment as required, and assisting the customer with using their alarm system.

After the installation of the alarm system, the actual monitoring of the alarm is done by SecurTek out of its alarm monitoring centre. SecurTek pays the independent security alarm company for its initial sales and installation efforts, and then bills the alarm customer for the monitoring of their alarm.

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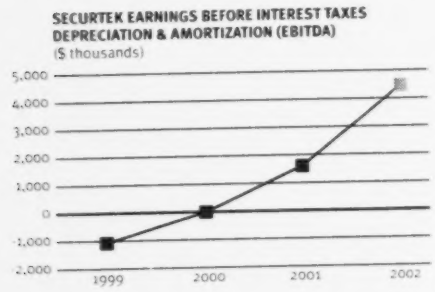
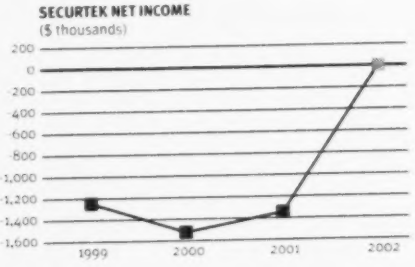
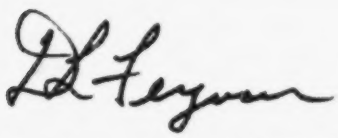
SecurTek has grown its customer base from its business start up in 1999 to nearly 60,000 customers. This growth has come through two methods. The primary method is through the new sales of its independent security alarm company partners as described above. The second is by purchasing blocks of customer accounts from other independent security alarm companies. Growth by purchasing blocks of accounts has accounted for a majority of SecurTek's growth. However, by the second half of 2002 the growth through partnerships with independent alarm companies became SecurTek's primary growth engine. In 2003, SecurTek will continue to grow through the sales of its alarm partners throughout its operating territory.

These two customer acquisition approaches have given SecurTek significant share of the security monitoring market in Saskatchewan, while also developing a presence in British Columbia, Alberta, Manitoba and selectively in Ontario. This aggressive growth strategy has enabled SecurTek to reach the critical mass to become profitable in only its fourth year of operation. Although the 2002 profit of $3,000 was small, it compares favourably with losses of $1,346,000 in 2001 and $1,522,000 in 2000. It is expected that the trend of growth in sales while holding the line on costs will result in continued growth in SecurTek's profits. Fully three-quarters of SecurTek's $11,189,000 revenues that generated this profit were from customers located outside Saskatchewan. Continued growth in revenues outside Saskatchewan and growth in profits will enable SecurTek to soon begin to pay dividends to SaskTel, providing the Province with a cash return on its investment in SecurTek.





SecurTek has consistently demonstrated strong and aggressive growth in the Saskatchewan market, and in other parts of Canada. In 2003 and beyond, SecurTek is committed to serving its customers through service excellence to build customer loyalty. By bringing new products and services to market quickly and at competitive prices, SecurTek will continue to meet the needs of its customers.



Don Ferguson, Interim President, SecurTek

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of SecurTek Monitoring Solutions Inc. as at December 31, 2002 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for December 31, 2001 were reported on by another firm of chartered accountants.

KPMG LLP
Chartered Accountants

Regina, Canada
January 15, 2003

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is the Canadian member firm of KPMG International, a Swiss nonoperating association.

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended December 31 (Thousands of dollars)	**2002**	2001
Operating revenues	**$ 11,189**	$ 7,492
Operating expenses	**6,720**	5,891
	4,469	1,601
Depreciation and amortization	**4,017**	2,476
Interest expense	**449**	471
Net income (loss)	**$ 3**	$ (1,346)

CONSOLIDATED STATEMENT OF DEFICIT

Year ended December 31 (Thousands of dollars)	**2002**	2001
Deficit, beginning of year	**$ (4,116)**	$ (2,770)
Net income (loss)	**3**	(1,346)
Deficit, end of year	**$ (4,113)**	$ (4,116)

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (Thousands of dollars)	**2002**	2001
Assets		
Current assets		
Cash	**$ 596**	$ 663
Accounts receivable	**1,026**	869
Due from Saskatchewan Telecommunications	**392**	381
Note receivable – Holdco (Note 4)	**2,045**	-
Prepaid expenses	**145**	37
	4,204	1,950
Property, plant and equipment (Note 5)	**3,078**	3,153
Customer accounts (Note 6)	**26,605**	18,912
Deferred development costs (Note 7)	**373**	517
	$ 34,260	$ 24,532
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 734**	$ 892
Deferred revenue	**1,094**	910
	1,828	1,802
Obligations under capital leases (Note 13)	**14**	26
Long-term debt (Note 8)	**18,848**	13,813
	20,690	15,641
Shareholder's equity		
Share capital and contributed surplus (Note 14)	**17,683**	13,007
Deficit	**(4,113)**	(4,116)
	13,570	8,891
	$ 34,260	$ 24,532

See Accompanying Notes
On behalf of the board

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (Thousands of dollars)	**2002**	2001
Cash provided by (used in):		
Operating activities		
Net income (loss)	**$ 3**	$ (1,346)
Items not affecting cash from operations (Note 9)	**4,017**	2,476
Net change in non-cash working capital items (Note 10)	**(2,295)**	(710)
	1,725	420
Financing activities		
Repayment of obligations under capital leases	**(13)**	(25)
Saskatchewan Telecommunications Holding Corporation (Note 8)	**5,035**	4,789
Contributed surplus (Note 14)	**4,676**	4,315
	9,698	9,079
Investing activities		
Property, plant and equipment expenditures	**(1,152)**	(1,914)
Customer accounts	**(6,803)**	(5,431)
Business acquisitions (Note 3)	**(3,535)**	(1,784)
Deferred development costs	**-**	(93)
	(11,490)	(9,222)
(Decrease) increase in cash	**(67)**	277
Cash, beginning of year	**663**	386
Cash, end of year	**$ 596**	$ 663

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) providing real time monitoring solutions in select markets in Canada.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Grenfell Holding, Inc. and SecurTek Partnerships No. 3, 4, 5, and 6. All significant intercompany transactions and balances have been eliminated.

Revenue recognition
Revenues from the monitoring of alarm systems are recognized when services are performed. Installation revenue is recognized in the month in which the systems are installed.

Property plant and equipment
Property plant and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the useful life of the asset.

Customer accounts
Customer accounts acquired individually or with a group of other assets are initially recognized and measured at cost. The cost of internally developed customer accounts includes direct development costs and overhead directly attributable to the development activity. Customer accounts are amortized using the straight line method over their useful lives. The Corporation annually reviews the amortization method and useful lives of the customer accounts.

Deferred development costs
Business development costs that were incurred during the start-up phase are deferred and amortized.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 -- Business acquisitions

During 2002 SecurTek Monitoring Solutions Inc. acquired 100% of the issued shares of three corporations providing security services in Alberta. The total purchase price was $3.5 million, the full amount of which was assigned to customer contracts.

In the prior year, the Corporation acquired customer monitoring accounts for a total consideration of $1.5 million.

Note 4 -- Note receivable due from Holdco

Note receivable consists of a promissory note issued by Holdco on December 31, 2002 in the amount of $2,045,000 due on or before March 31, 2003. Interest is calculated using Bank of Canada prime rate. The effective average interest rate for the year was 4.19%.

Note 5 -- Property, plant and equipment

Asset	Useful life
Plant and equipment	3 to 5 years
Office furniture, equipment and leaseholds	3 to 5 years

	Cost	Accumulated depreciation and amortization	Net book value	
			2002	2001
			(Thousands of dollars)	
Plant and equipment	**$ 5,082**	**$ 2,153**	**$ 2,929**	$ 2,921
Office furniture, equipment and leaseholds	**475**	**326**	**149**	232
	$ 5,557	**$ 2,479**	**$ 3,078**	$ 3,153

Depreciation and amortization for the year totaled $1,228,406 (2001 - $793,943).

Note 6 -- Customer accounts

The cost of customer accounts is being amortized over their estimated useful life of 10 to 12.5 years. Amortization of this definite life intangible asset during the year totaled $2,644,839 (2001 - $1,506,318).

	2002	2001
	(Thousands of Dollars)	
Customer accounts	**$ 31,480**	$ 21,143
Less accumulated amortization	**4,875**	2,231
	$ 26,605	$ 18,912

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 -- Deferred development costs

The cost of business development costs are amortized over five years. Amortization during the year totaled $143,456 (2001 – $175,668).

	2002	2001
	(Thousands of Dollars)	
Deferred development costs	**$ 865**	$ 865
Less accumulated amortization	**492**	348
	$ 373	$ 517

Note 8 -- Long-term debt

Amounts due to Holdco bear interest at the Province of Saskatchewan ninety-day borrowing rate with no fixed repayment terms. Accordingly, the amount due has been classified as long-term.

Note 9 -- Items not affecting cash from operations

	2002	2001
	(Thousands of dollars)	
Depreciation and amortization	**$ 4,017**	$ 2,476

Note 10 -- Net change in non-cash working capital items

	2002	2001
	(Thousands of dollars)	
Accounts receivable	**$ (157)**	$ (207)
Due from Saskatchewan Telecommunications	**(11)**	(1)
Note receivable – Holdco	**(2,045)**	-
Prepaid expenses	**(108)**	6
Accounts payable and accrued liabilities	**(158)**	(555)
Deferred revenue	**184**	47
	$ (2,295)	$ (710)

Note 11 -- Financial instruments

Fair value
The carrying amounts of cash, accounts receivable, due from Saskatchewan Telecommunications, notes receivable – Holdco, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The fair value of long-term debt and obligations under capital leases approximates their carrying value due to current incremental borrowing rates for similar borrowing arrangements.

Credit risk
The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Note 12 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2002	2001
	(Thousands of dollars)	
Operating revenues	**$ 19**	$ 27
Operating expenses	**207**	445
Accounts payable	**56**	157
Accounts receivable	**392**	381

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 13 -- Commitments

The future minimum lease payments under the capital and operating leases of the Corporation are as follows:

	Capital	Operating
	(Thousands of dollars)	
2003	$ 14	$ 71
2004	14	46
2005	-	33
2006	-	33
2007	-	33
Aggregate future minimum capital lease payments	$ 28	
Portion representing implied interest	1	
Capital lease obligations	27	
Less current portion included in accounts payable	13	
Long-term portion	$ 14	

Capital leases expire over the period February 2003 to September 2004 and incur interest between 8.93% and 9.30%. Interest expense on capital lease obligations during the year totaled $3,471 (2001-$5,368).

Note 14 -- Share capital and contributed surplus

	2002	2001
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 6,150,000 shares	**$ 6,150**	$ 6,150
Contributed surplus	**11,533**	6,857
	$ 17,683	$ 13,007

During the year, the Corporation received an amount of $4,676,000 (2001 - $4,315,000) from Holdco, which was credited to contributed surplus.

Note 15 -- Comparative figures

2001 figures have been reclassified to conform to current year's presentation.